1970 ANNUAL REPORT

ESSEX PACKERS LIMITED, HAMILTON, ONTARIO

Essex Packers Limited

DIRECTORS

O. W. Durdin, Q.C.
C. J. McKee
E. D. Goulding
J. A. McPharlin
L. S. Lee
H. Poworoznyk
R. M. Ptolemy

OFFICERS

Chairman of the Board
J. A. McPharlin

President and General Manager
C. J. McKee

Secretary - Treasurer
G. N. Seifried

AUDITORS

McDonald, Currie & Co.
Chartered Accountants

PLANTS

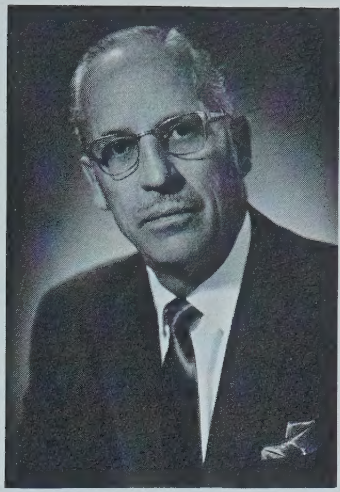
Hamilton — St. Catharines

SUBSIDIARY COMPANIES

Essex Fine Foods Inc., Buffalo, N.Y., U.S.A.

143 Mohr St. Inc., Buffalo, N.Y., U.S.A.

Seprasystems, Limited, Buffalo, N.Y., U.S.A.



President's Report

To the Shareholders:

It is my privilege and pleasure to report to you on the operations, activities and progress of your Company during the fiscal year ended on March 28, 1970. On this occasion, it is particularly gratifying to be able to inform you that the loss trend experienced the previous year has been completely reversed and an encouraging profit realized. By reference to the Statement of Earnings, it may be observed that the net earning for the year was $241,000 as compared to a loss of $282,000 – an improvement of $523,000.

The year under review, though difficult, provided a challenge that proved both stimulating and gratifying. Initially, we introduced several programs designed to re-establish our financial stability. These included a more aggressive sales policy supported by a clearly defined approach to improved efficiency and economy through uniformity and consistency of operation. In substance, we had assumed a philosophy of management by objective. Not only were most of our goals attained but, equally important, the planned reorganization of management personnel was successfully completed.

Operations at the Windsor plant were gradually phased out during the first quarter and ultimately closed down in early July. Subsequently, the premises and its facilities were sold and the entire transaction completed by September. The wisdom of this decision is evidenced by the elimination of further losses at that point and the release of additional working capital for more profitable use in other areas of the Company's activity. As previously advised, we are now serving Windsor and the surrounding communities effectively, efficiently and profitably from the Hamilton plant.

Despite the elimination of that facility, our net sales exceeded the previous year's by $72,000, establishing a new Company record. Perhaps of greater interest is the fact that the margin of gross profit on sales was substantially better than formerly experienced. This is a tribute to the initiative and perseverance of the marketing group in implementing the revised sales policy. Production planning and plant operations also made a splendid contribution

to improved margins through the medium of more consistent quality, controlled yields and a reasonable increase in labour productivity. Much of this progress may be attributed to the application of budget control to all phases of our operations.

As a consequence of profitable performance and careful budgeting, the Company's working capital greatly increased and reflected a growth of $483,052 at March 28, 1970 over that of March 29, 1969, which increment, of course, included also the sale price of the Windsor plant and property. It may be added that the facilities of the firm were maintained in good condition throughout the year and remain in that state at the present time.

Despite the improvement in liquidity since the prior year end, your Directors determined to defer preference share dividend declarations until such time as the Company's financial position could ensure consistent continuity in such payments. It is anticipated that dividend arrears will be gradually disposed of during the next twelve months and that the Company's commitments will be fully observed on a current basis.

Prospects for this year are encouraging indeed. Our management team, working in a dedicated, determined, and positive manner, is enthusiastically endeavouring to exceed the progress of the past year. Results to date would indicate that such ambitions may well be realized and, with the revitalization of attitude and effort, will continue to enure to your Company's benefit.

I would again express my personal appreciation and that of the Directors of your Company for the patronage and good will of our customers and for the courtesy and co-operation of our shareholders, suppliers, and the business community at large. Last, but not least, I would express to our employees our deep gratitude for their sincere efforts, and for their assistance and loyalty during the past year. With their continued support, we look forward with confidence to the future.

C. J. McKee – PRESIDENT

Auditors' Report

To The Shareholders of
Essex Packers Limited

We have examined the balance sheet of Essex Packers Limited as at March 28, 1970 and the statements of earnings, retained earnings, contributed surplus, and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at March 28, 1970 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.,
Chartered Accountants

Windsor, Ontario
April 15, 1970

Essex Packers Limited

Comparative Balance Sheet

as at March 28, 1970

Assets

			1970	1969
CURRENT ASSETS			$	$
Cash			–	69,188
Accounts receivable – (net of allowance for doubtful accounts 1970 – $8,012; 1969 – $4,062) (Note 1)				
Trade			1,237,270	1,088,148
Other			32,006	25,026
Inventories – at the lower of cost or net realizable value (Notes 1 and 2)			1,217,045	1,336,329
Prepaid expenses			46,354	59,432
			2,532,675	2,578,123
INVESTMENTS				
Shares of subsidiaries – at cost			–	640
Advances to subsidiaries			–	14,308
7½% mortgage loan receivable			17,203	–
			17,203	14,948
SINKING FUND BANK (Note 3)			25	25
FIXED ASSETS	Cost	Accumulated depreciation		
	$	$		
Land	74,757	–	74,757	73,957
Buildings	639,300	300,510	338,790	518,907
Machinery and equipment	1,583,979	1,198,011	385,968	451,051
Trucks and autos	263,220	185,501	77,719	117,803
Construction in progress	–	–	–	59,592
	2,561,256	1,684,022	877,234	1,221,310
GOODWILL – at nominal value			1	1
			3,427,138	3,814,407

Signed on Behalf of the Board

J. A. McPHARLIN
Director

C. J. McKEE
Director

Liabilities

	1970 $	1969 $
CURRENT LIABILITIES		
Bank loan (Note 1)	1,175,162	1,833,000
Accounts payable — trade	352,331	229,299
Other accounts payable and accrued liabilities	270,935	264,629
	1,798,428	2,326,928

Shareholders' Equity

	1970 $	1969 $
CAPITAL STOCK		
Authorized —		
12,513 5% cumulative sinking fund first preference shares with a par value of $50. redeemable at $52.50 (Note 3)		
140,000 common shares without par value		
Issued and fully paid —		
7,513 preferred shares (Note 3)	375,650	375,650
140,000 common shares	700,000	700,000
	1,075,650	1,075,650
CONTRIBUTED SURPLUS	36,119	36,119
RETAINED EARNINGS	516,941	375,710
	1,628,710	1,487,479
	3,427,138	3,814,407

Statements of Retained Earnings and Contributed Surplus

for the year ended March 28, 1970

Retained Earnings

	1970	1969
APPROPRIATED AS A RESERVE FOR REDEMPTION OF FIRST PREFERENCE SHARES (Note 3)	$	$
Balance – beginning of year	25	1,272
Less: Transfer to retained earnings corresponding to amounts disbursed from sinking fund bank to redeem first preference shares during the year	–	1,254
	25	18
Add: Transfer from retained earnings corresponding to amount to be deposited in sinking fund bank	24,104	–
Interest earned on sinking fund bank deposits	–	7
Balance – end of year	24,129	25
UNAPPROPRIATED		
Balance – beginning of year	375,685	702,401
Add: Net earnings for the year	241,035	–
Transfer from the reserve for redemption of first preference shares	–	1,254
	616,720	703,655
Less: Net loss for the year	–	281,821
Dividends on first preference shares	–	14,149
Transfer to the reserve for redemption of first preference shares	24,104	–
Increase (decrease) in provision for loss upon realization of investment in subsidiary companies	(1,253)	32,000
Loss on disposal of Windsor plant	101,057	–
	123,908	327,970
Balance – end of year	492,812	375,685
TOTAL BALANCE – End of Year	516,941	375,710

Contributed Surplus

	1970	1969
BALANCE – Beginning of Year	36,119	35,723
Add: Surplus resulting from redemption of first preference shares at less than their par value	–	396
BALANCE – End of Year	36,119	36,119

Statement of Earnings

for the year ended March 28, 1970

	1970 $	1969 $
Net Earnings (Loss) From Operations Before Depreciation and Income Taxes	357,084	(130,560)
Less Provision for Depreciation	116,049	158,647
Net Earnings (Loss) Before Income Taxes	241,035	(289,207)
Provision For (Recovery Of) Income Taxes	118,000	(7,386)
Less: Reduction Upon Application Of Prior Year's Loss	118,000	—
	—	(7,386)
Net Earnings (Loss) For The Year	241,035	(281,821)

The following expense is included in the foregoing:

Remuneration of Directors and Senior Officers as defined by the Corporations Act (Ontario)	140,126	109,260

Notes to Financial Statements

for the year ended March 28, 1970

1. SECURITY FOR BANK LOANS:

   Book debts and inventories have been specifically pledged as security for bank loans; as additional collateral security, the company granted to the bank, under a pledge agreement, by a debenture, a first fixed and specific charge on all the company's real property and a floating charge on all of its assets; the debenture being limited in its aggregate principal amount to $1,700,000.

2. INVENTORIES ARE CLASSIFIED AS FOLLOWS:

   Product — $942,112, Supplies — $274,933, totalling $1,217,045

3. RESERVE FOR REDEMPTION OF FIRST PREFERENCE SHARES:

   In accordance with the conditions attaching to the first preference shares as set forth in the Letters Patent of the company, and pursuant to the opinion of the company's solicitor, this amount has been set aside as a reserve with a related sinking fund to be maintained for the redemption or purchase of said preference shares pursuant to said conditions.

4. INVESTMENT IN SUBSIDIARY COMPANIES:

   As at March 28, 1970 application to the appropriate authorities had been made to wind up all subsidiaries, and accordingly, consolidated financial statements have not been prepared.

   No dividends or other income were received by the company from its subsidiaries and all losses experienced by the subsidiaries up to the date of their dissolution have been recognized in the accounts of the company.

5. DEPRECIATION EXPENSE:

   A portion of the company's investment in fixed assets (approximately $174,000) is not eligible for tax deductible depreciation. Since the company records this expense in its accounts on the same basis and in same amounts as it claims for tax purposes, no charge has been made against the company's income of the current or preceding fiscal years respecting the depreciation applicable to the above-mentioned portion of its fixed assets.

6. DIVIDEND ARREARS:

   First preference share cumulative dividend arrears amounted to $23,500 as at March 28, 1970.

Essex Packers Limited

Statement of Source and Use of Funds

for the year ended March 28, 1970

	1970 $	1969 $
Source of Funds		
Net earnings for the year	241,035	–
Add: Charges not requiring cash outlay – Depreciation	116,049	–
	357,084	–
Proceeds from disposal of fixed assets	149,075	9,156
Interest earned on sinking fund bank deposits	–	7
Recovery of investment in and advances to subsidiary companies	16,201	32,617
	522,360	41,780
Use of Funds		
Net loss for the year	–	281,821
Less: Charges not requiring cash outlay – Depreciation	–	158,647
	–	123,174
Additions to fixed assets	22,105	191,339
Transfer of cash to sinking fund account	–	1,088
Dividends	–	14,149
Assume mortgage receivable	17,203	–
	39,308	329,750
Increase (Decrease) In Working Capital	483,052	(287,970)
Working Capital – Beginning Of Year	251,195	539,165
Working Capital – End Of Year	734,247	251,195

This is how each $100.00 of sales was distributed.

TO PRODUCERS	For livestock and other raw materials	$75.61
TO EMPLOYEES	For wages, salaries and welfare	13.91
TO SUPPLIERS	For packaging and other processing supplies	4.87
TO GENERAL EXPENSE	For power, heat, refrigeration, maintenance, insurance, selling, advertising, etc.	3.95
TO DEPRECIATION		.27
TO TAXES	Federal, Provincial and Municipal	.20
TO INTEREST	On bank loans	.39
TO PROFIT		.80

INTERIM REPORT TO SHAREHOLDERS

for the 24 weeks ended September 12, 1970

To the Shareholders:

Your company's operations during the twenty-four weeks ended September 12, 1970 resulted in Net Earnings Before Tax of $176,169 compared with those of $116,079 for the parallel period of the preceding year. However, substantial provision for both Federal and Provincial corporation taxes reduced current net profits to $100,169, in contrast with 1969 fiscal, when the entire gain warranted tax immunity through application of the 1968 deficit in conformity with the loss carry-forward provisions of the Income Tax Act.

The 1970 year has again reflected management's objective of increasing productivity whilst restricting operating costs within reasonable limits. During this time, sales volume has increased, and product quality has risen in response to continuing efforts in that direction. At the same time, concentrated attention has been devoted to the improvement of plant and facilities, with substantial expenditures having been made on maintenance and on additions where deemed necessary to enhance our competitive position.

As consequence of careful budgetary control in all departments, and consistent profitable performance during the past year, working capital has risen from $563,367 to $826,126, a level which we feel more suited to our large volume requirements, and conducive to further financial economies.

Your directors believe that the programme envisaged for the remaining twenty-eight weeks of this fiscal year will ensure continuity of the profit trend experienced to date.

October 30, 1970

President

ESSEX PACKERS LIMITED

INTERIM REPORT TO SHAREHOLDERS (Unaudited)

Financial Summary for the 24 weeks ended September 12, 1970

STATEMENT OF EARNINGS

	1970 $	1969 $
SALES	15,653,882	14,546,262
COST OF RAW MATERIALS	12,143,664	11,523,652
OPERATING, SELLING AND DISTRIBUTION EXPENSE	3,284,429	2,843,791
DEPRECIATION EXPENSE	49,620	62,740
	15,477,713	14,430,183
NET EARNINGS BEFORE TAXES	176,169	116,079
PROVISION FOR INCOME TAXES	84,000	57,000
Less: Reduction due to Losses of Prior Years	8,000	57,000
	76,000	—
NET EARNINGS FOR THE PERIOD	100,169	116,079

STATEMENT OF SOURCE AND USE OF FUNDS

SOURCE OF FUNDS

	1970 $	1969 $
NET EARNINGS FOR THE PERIOD	100,169	116,079
Add: Charge not requiring cash outlay Depreciation	49,620	62,740
	149,789	178,819
PROCEEDS FROM DISPOSAL OF FIXED ASSETS	—	133,500
REDUCTION IN MORTGAGE RECEIVABLE	2,098	—
	151,887	312,319

USE OF FUNDS

	1970 $	1969 $
PURCHASE OF FIXED ASSETS	55,313	147
PAYMENT OF DIVIDENDS	4,695	—
	60,008	147
INCREASE IN WORKING CAPITAL	91,879	312,172
WORKING CAPITAL - Beginning of Period	734,247	251,195
- End of Period	826,126	563,367